

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the County of York's (the "County's") comprehensive annual financial report presents management's discussion and analysis of the County's financial performance during the fiscal year ended June 30, 2005. Please read it in conjunction with the transmittal letter on pages A-1 through A-9 at the front of this report and the County's basic financial statements, which begin on page D-1.

FINANCIAL HIGHLIGHTS FOR FISCAL YEAR (FY) 2005

- The assets of the County, on a government-wide basis excluding component units, exceeded its liabilities as of June 30, 2005 by \$140,395,635 (net assets). Of this amount, \$7,394,453 is unrestricted and may be used to meet the County's ongoing obligations to citizens and creditors.
- The government's total net assets increased by \$16,241,516. Of this increase, governmental activities totaled \$11,255,648, which is attributable to local taxes including sales, meals and room taxes; an increase in property taxes as a result of reassessments; and receipt of capital grant funds for the waterfront project. Business-type activities accounted for \$4,985,868 of the overall increase, which is primarily attributable to capital contributions for infrastructure.
- As of June 30, 2005 the County's governmental funds reported combined ending fund balances of \$43,965,192. Unreserved, undesignated fund balance totaled \$7,334,613, or seventeen percent, and is available for spending at the government's discretion.
- As of June 30, 2005 unreserved and undesignated fund balance for the General Fund was \$7,250,289, or 8.8% of total general fund expenditures.
- The County's total debt outstanding at June 30, 2005 was \$77,856,327, which is a decrease of \$4,855,158 from the prior year. The key factor in this decrease was the paydown of principal during the year.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Comprehensive Annual Financial Report consists of three (3) sections: introductory, financial and statistical. The financial section includes the basic financial statements consisting of three components: 1) Government-wide financial statements; 2) Fund financial statements; and 3) Notes to the basic financial statements. Required Supplementary Information is included in addition to the basic financial statements.

For over two decades, the primary focus of local government financial reporting has been summarized fund-type information on a current financial resources basis. This approach has been modified and the County's financial statements now present two kinds of statements, each with a different perspective of the County's finances. The new presentation focuses on both the County as a whole (government-wide) and the fund financial statements. The government-wide financial statements provide both long-term and short-term information about the County's overall financial status. The fund financial statements focus on the separate parts of the County government and report on the County's operations in greater detail than the government-wide financial statements. Both the government-wide and fund perspectives allow the user to focus on relevant issues, broaden the basis of comparison and enhance the County's accountability.

Government-wide Statements - The government-wide financial statements are designed to provide the reader with a broad overview of the County's finances, in a manner similar to a private-sector business. One of the most frequently asked questions about the County's finances is, "Is the County as a whole better off or worse off as a result of this year's activities?" The Statement of Net Assets and the Statement of Activities report information about the County as a whole and about its activities in a way that helps answer this question. These statements include all of the assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the County's net assets and the changes in them. One can think of the County's net assets - the difference between assets and liabilities - as one way to measure the County's financial health or financial position. Over time, increases or decreases in the County's net assets is one indicator of whether its financial health is improving or deteriorating. However, other non-financial factors will need to be considered, such as changes in the County property tax base, to assess the overall health of the County.

In the Statement of Net Assets and the Statement of Activities, the County is divided into three kinds of activities:

- Governmental activities - Most of the County's basic services are reported here, including general government, judicial services, public safety, environmental and development services, finance and planning, education, human services, general services, and community services. Property taxes, other local taxes, and state and federal grants finance most of these activities.
- Business-type activities - The County charges a fee to customers to help cover the majority of the costs of services it provides. The County's two Sanitary Districts, water enterprise, solid waste, water and sewer utilities and Yorktown revitalization operations are reported here.
- Component units - The County includes two separate legal entities in its report - the York County School Division and the York County Economic Development Authority. Although legally separate, the "component units" are important because the County is financially accountable for them and provides operating and capital funding.

The government-wide financial statements can be found on pages D-1 through D-2 of this report.

Fund Financial Statements - Traditional users of government financial statements will find the fund statement presentation more familiar, although the focus is only on the County's most significant funds. The County uses fund accounting to ensure and demonstrate compliance with finance related legal requirements.

The County has three kinds of funds:

- Governmental funds - Most of the County's basic services are reported in governmental funds, which focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out; and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed, short-term view of the County's general government operations and the basic services it provides. Governmental fund information helps the reader determine whether there are more or fewer financial resources that can be spent in the future to finance the County's programs.

Because this information does not address the long-term focus of the government-wide statements, additional information is provided after the governmental funds statements that explains the relationship (or differences) between the fund financial statements and the government-wide financial statements. The basic governmental fund financial statements can be found on pages E-1 through E-4 of this report.

The County maintains ten individual governmental funds. Information is presented separately in the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances for the general and capital projects funds, all of which are considered to be major funds. Data from the other seven governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements on pages H-2 through H-6 of this report.

- Proprietary funds - Services for which the County charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both long and short-term financial information.

In fact, the County's enterprise funds (one type of proprietary fund) are its business-type activities, but the fund financial statements provide more detail and additional information, such as cash flow. The basic proprietary fund financial statements can be found on pages E-5 through E-7 of this report. The County maintains seven individual enterprise funds. Information is presented separately in the proprietary fund statement of net assets, the proprietary fund statement of revenues, expenses and changes in fund net assets and the proprietary fund statement of cash flows for the Sewer Utility and Yorktown Revitalization funds, all of which are considered to be major funds. Data for the other five enterprise funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major enterprise funds is provided in the form of combining statements on pages I-2 through I-4 of this report.

The County uses one internal service fund (the other type of proprietary fund) to report activities that provide supplies and services for the County's other programs and activities. This fund provides for the accumulation of resources to replace capital equipment and maintenance services for the County's vehicle fleet. The internal service fund is presented as a separate column in the proprietary fund financial statements. The basic internal service fund financial statements can be found on pages E-5 through E-7 of this report.

- Fiduciary funds - All of the County's fiduciary activities are reported in separate agency fund statements of assets and liabilities and changes in assets and liabilities. The County excludes these activities from the County's government-wide statements because the County cannot use these assets to finance its operations. Agency funds are County custodial funds used to provide accountability of client monies for which the County is the custodian.

The Statement of Assets and Liabilities - Agency Funds can be found on page E-8 of this report. Individual fund data for the agency funds is provided in the form of combining statements on pages J-2 through J-3 of this report.

Notes to the Basic Financial Statements - The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages F-1 through F-32 of this report.

Other information - In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the County's General Fund budget and progress in funding its obligation to provide pension benefits to its employees and contributions for the single-employer defined benefit pension plan of the School Division. Required supplementary information can be found beginning on page G-2 of this report.

The combining statements for nonmajor governmental funds are presented immediately following the required supplementary information on the General Fund budget and defined benefit pension plans. Combining statements can be found on pages H-2 through J-3 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Summary of Statement of Net Assets As of June 30, 2005 and 2004

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>FY2005</u>	<u>FY2004</u>	<u>FY2005</u>	<u>FY2004</u>	<u>FY2005</u>	<u>FY2004</u>
Current and other assets	\$ 69,170,309	\$ 79,978,931	\$ 11,182,792	\$ 11,420,292	\$ 80,353,101	\$ 91,399,223
Capital assets	<u>73,170,278</u>	<u>53,427,818</u>	<u>88,371,751</u>	<u>84,266,582</u>	<u>161,542,029</u>	<u>137,694,400</u>
Total assets	<u>\$ 142,340,587</u>	<u>\$ 133,406,749</u>	<u>\$ 99,554,543</u>	<u>\$ 95,686,874</u>	<u>\$ 241,895,130</u>	<u>\$ 229,093,623</u>
Current and other liabilities	\$ 21,861,788	\$ 19,754,982	\$ 1,781,380	\$ 2,473,037	\$ 23,643,168	\$ 22,228,019
Long-term liabilities	<u>67,184,503</u>	<u>71,613,119</u>	<u>10,671,824</u>	<u>11,098,366</u>	<u>77,856,327</u>	<u>82,711,485</u>
Total liabilities	<u>89,046,291</u>	<u>91,368,101</u>	<u>12,453,204</u>	<u>13,571,403</u>	<u>101,499,495</u>	<u>104,939,504</u>
Net assets:						
Invested in capital assets, net of related debt	53,886,089	32,867,347	77,280,029	73,605,861	131,166,118	106,473,208
Restricted net assets	1,416,039	6,768,508	419,025	372,366	1,835,064	7,140,874
Unrestricted net assets	<u>(2,007,832)</u>	<u>2,402,793</u>	<u>9,402,285</u>	<u>8,137,244</u>	<u>7,394,453</u>	<u>10,540,037</u>
Total net assets	<u>53,294,296</u>	<u>42,038,648</u>	<u>87,101,339</u>	<u>82,115,471</u>	<u>140,395,635</u>	<u>124,154,119</u>
Total liabilities and net assets	<u>\$ 142,340,587</u>	<u>\$ 133,406,749</u>	<u>\$ 99,554,543</u>	<u>\$ 95,686,874</u>	<u>\$ 241,895,130</u>	<u>\$ 229,093,623</u>

Current and other assets decreased by \$11,046,122 from the prior year. Most of the decrease was in cash and restricted cash, used to fund capital projects.

Capital assets increased by \$23,847,629 over the prior year. This is attributable to the capitalization of the waterfront projects, the communications system, the new E911 center and water and sewer infrastructure.

The County's net assets totaled \$140,395,635 excluding the discretely presented component units, of which approximately 1.3% represented resources that are subject to external restrictions. Restrictions do not significantly affect the availability of fund resources for future use. The largest portion of the County's net assets (93.4%) reflected its investment in capital assets, less any related debt used to acquire those assets that was still outstanding. These assets are used to provide services to citizens and consequently are not available for future spending. The County's unrestricted net assets, the part of net assets that can be used to finance day-to-day operations, were \$7,394,453.

The government's total net assets increased by \$16,241,516. This represents increases in local taxes including sales, meals and room taxes; an increase in property taxes as a result of reassessments; receipt of capital grant funds for the waterfront project; and an increase in capital contributions for infrastructure.

Under Virginia law, School Divisions hold title to all school property, except when the governing bodies of the local government and school division agree that title may vest in the locality. Since Virginia school divisions do not have taxing authority, local governments incur financial obligations for school property. In June 2003, the York County Board of Supervisors passed a resolution electing not to acquire tenancy in common of school property in the implementation of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. The County borrows funds to finance the acquisition, construction, and improvement of school property, and the School Division holds title to this property. With the County opting out of Senate Bill 276, the asset values are reported on the School Division's Statement of Net Assets and the related debt or liability are reported on the County's Statement of Net Assets. For FY2005, this presentation of showing the school debt without the asset resulted in negative unrestricted net assets for governmental activities of \$2,007,832.

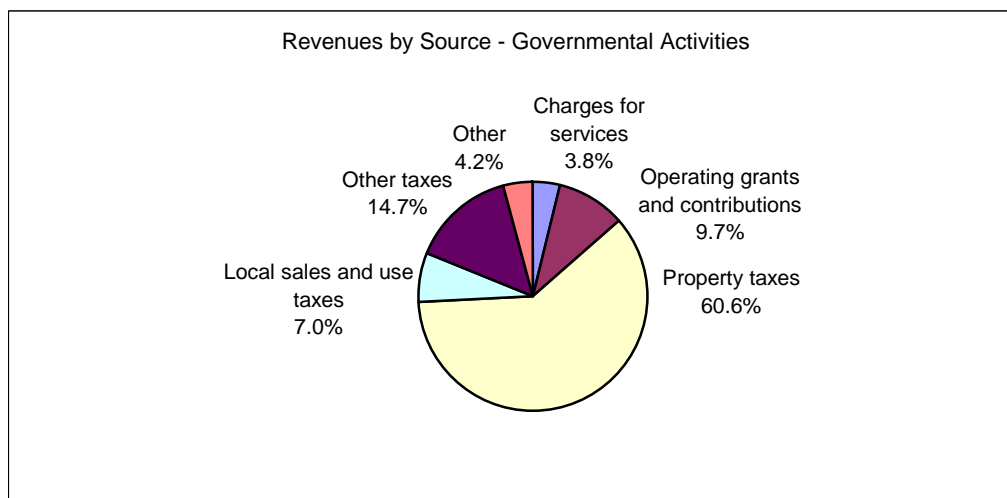
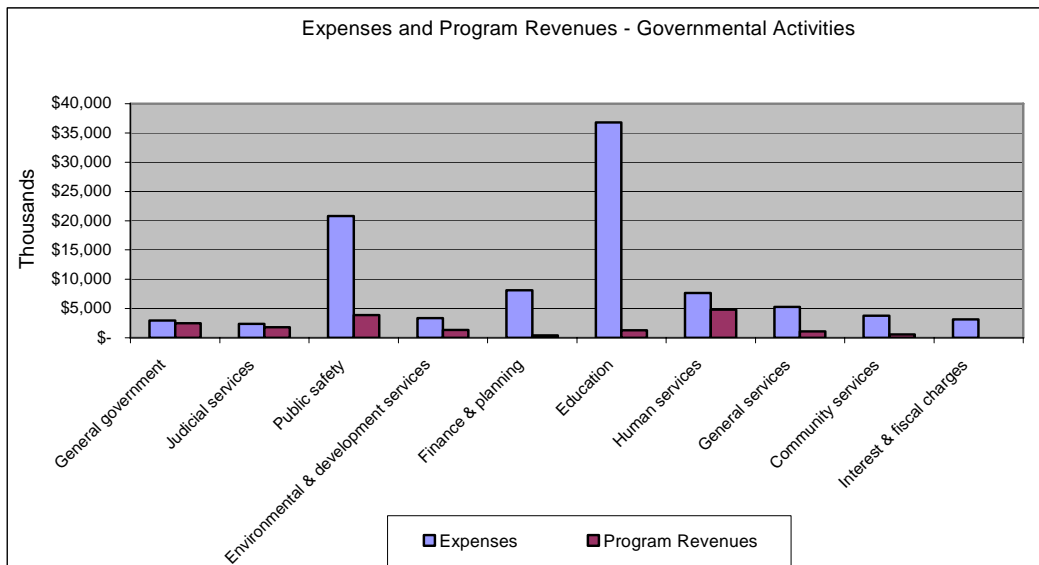
Summary of Changes in Net Assets Years Ended June 30, 2005 and 2004

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>FY2005</u>	<u>FY2004</u>	<u>FY2005</u>	<u>FY2004</u>	<u>FY2005</u>	<u>FY2004</u>
Revenues:						
Program revenues:						
Charges for services	\$ 4,165,499	\$ 3,474,811	\$ 10,118,608	\$ 10,144,633	\$ 14,284,107	\$ 13,619,444
Operating grants and contributions	10,554,462	10,364,152	-	-	10,554,462	10,364,152
Capital grants and contributions	3,003,814	1,927,100	2,914,078	3,088,844	5,917,892	5,015,944
General revenues:						
Property taxes	65,900,330	61,127,101	-	-	65,900,330	61,127,101
Other taxes	23,488,704	20,476,490	-	-	23,488,704	20,476,490
Unrestricted investment earnings	829,682	445,578	270,832	116,428	1,100,514	562,006
Miscellaneous	750,914	639,664	10,684	66,078	761,598	705,742
Total revenues	<u>108,693,405</u>	<u>98,454,896</u>	<u>13,314,202</u>	<u>13,415,983</u>	<u>122,007,607</u>	<u>111,870,879</u>
Expenses:						
Governmental activities:						
General government	2,935,520	2,694,972	-	-	2,935,520	2,694,972
Judicial services	2,364,958	2,183,343	-	-	2,364,958	2,183,343
Public safety	20,785,091	17,992,604	-	-	20,785,091	17,992,604
Environmental and development services	3,371,442	2,923,736	-	-	3,371,442	2,923,736
Finance and planning	8,123,994	6,707,583	-	-	8,123,994	6,707,583
Education	36,804,422	37,737,823	-	-	36,804,422	37,737,823
Human services	7,616,519	6,900,059	-	-	7,616,519	6,900,059
General services	5,249,587	4,451,026	-	-	5,249,587	4,451,026
Community services	3,742,477	3,192,842	-	-	3,742,477	3,192,842
Interest and fiscal charges on noncurrent debt	3,139,152	3,031,935	-	-	3,139,152	3,031,935
Business-type activities:						
Sewer Utility	-	-	6,061,527	5,591,699	6,061,527	5,591,699
Water Utility	-	-	461,341	1,005,858	461,341	1,005,858
Solid Waste	-	-	4,298,743	4,639,612	4,298,743	4,639,612
Yorktown revitalization	-	-	232,920	547,092	232,920	547,092
Sanitary Districts	-	-	578,398	578,398	578,398	578,398
Total expenses	<u>94,133,162</u>	<u>87,815,923</u>	<u>11,632,929</u>	<u>12,362,659</u>	<u>105,766,091</u>	<u>100,178,582</u>
Change in net assets, before transfers and extraordinary item	14,560,243	10,638,973	1,681,273	1,053,324	16,241,516	11,692,297
Transfers	(3,304,595)	(2,813,431)	3,304,595	2,813,431	-	-
Extraordinary item - Hurricane Isabel	-	(674,702)	-	(733,220)	-	(1,407,922)
Increase in net assets	11,255,648	7,150,840	4,985,868	3,133,535	16,241,516	10,284,375
Net assets, beginning	<u>42,038,648</u>	<u>34,887,808</u>	<u>82,115,471</u>	<u>78,981,936</u>	<u>124,154,119</u>	<u>113,869,744</u>
Net assets, ending	<u>\$ 53,294,296</u>	<u>\$ 42,038,648</u>	<u>\$ 87,101,339</u>	<u>\$ 82,115,471</u>	<u>\$ 140,395,635</u>	<u>\$ 124,154,119</u>

Governmental Activities - For the fiscal year ended June 30, 2005, revenues from governmental activities totaled \$108,693,405. Real estate tax revenues, the County's largest revenue source, reflecting the accrual of the last half of calendar year 2004 and the first half of calendar year 2005 real property tax billing, were \$46,569,448. The County's assessed real property tax base for calendar year 2005 was \$5,650,832,461. Property taxes increased by \$4,773,229 largely due to reassessments of real estate property.

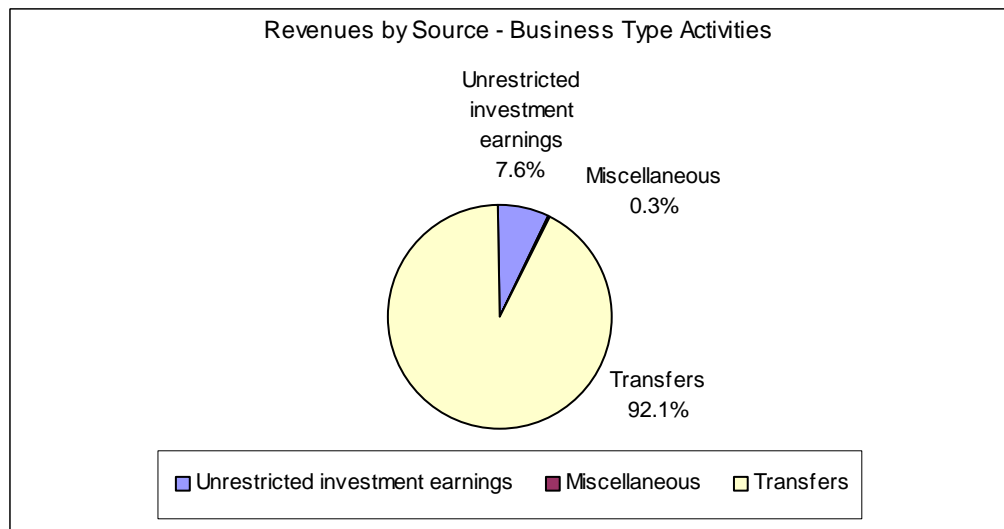
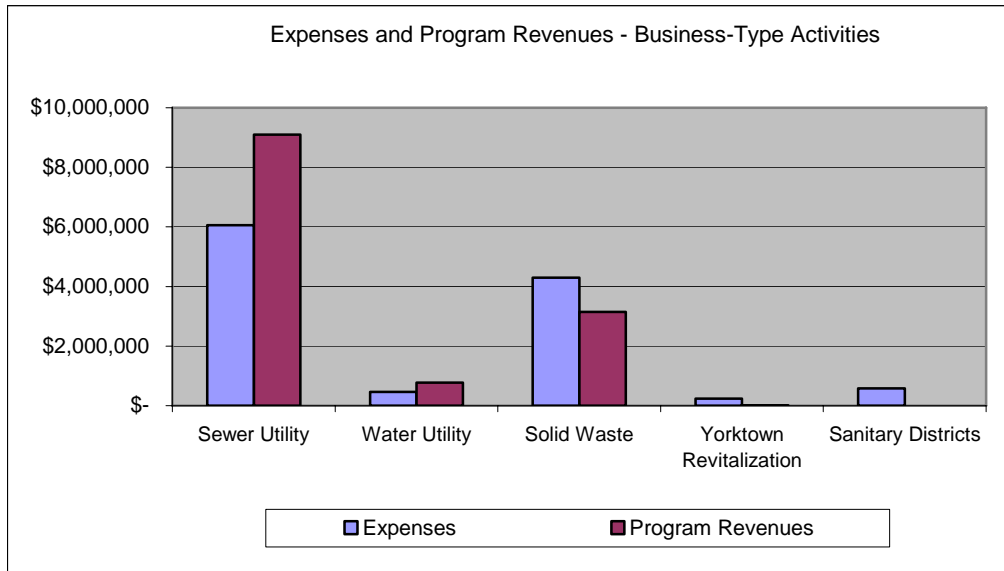
In fiscal year 2005, the County reported current year collections of \$17,528,450 in personal property taxes, the County's second largest revenue source. Of that amount, \$8,582,184 was received as reimbursement from the Commonwealth of Virginia. Under the provisions of the Personal Property Tax Relief Act (PPTRA), the State's share of local personal property tax was approximately 70% of most taxpayer's payments. Other taxes increased by \$3,012,214 as a result of increases in sales, meals, hotel and motel room taxes, and business license taxes. Capital grants increased by \$1,076,714, which is largely attributable to an enhancement grant for the waterfront.

For the fiscal year ended June 30, 2005, expenses for governmental activities totaled \$94,133,162, including payments of \$34,537,955 to the component unit School Division and \$8,923,557 to the component unit Economic Development Authority.



Business-Type Activities - Business-type activities increased the County's net assets, before transfers, by \$1,681,273 accounting for 10.4% of the total growth in the County's net assets. The key element of this increase is charges for services, which comprised 75.8% of revenues before transfers.

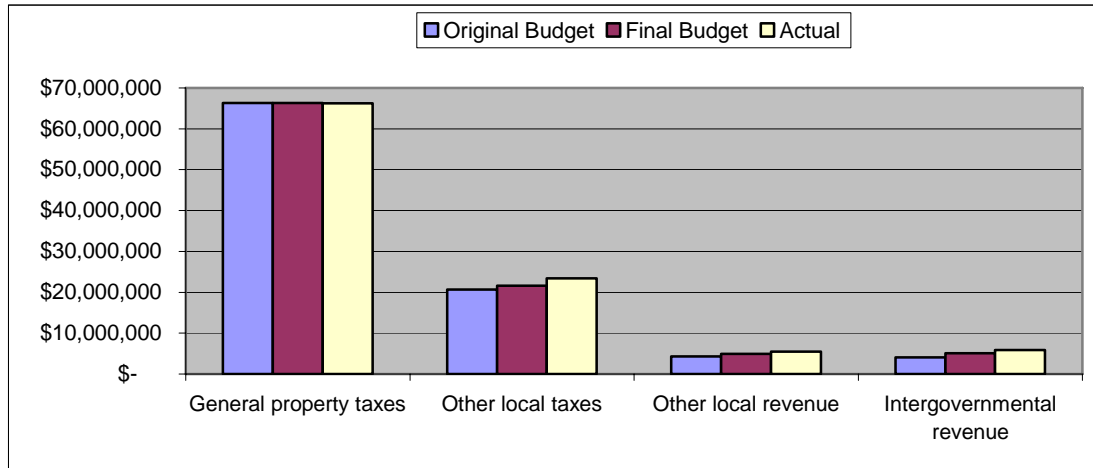
The County continues to supplement the Solid Waste Fund through transfers from the General Fund to support the County's curbside recycling program.



GENERAL FUND BUDGETARY HIGHLIGHTS

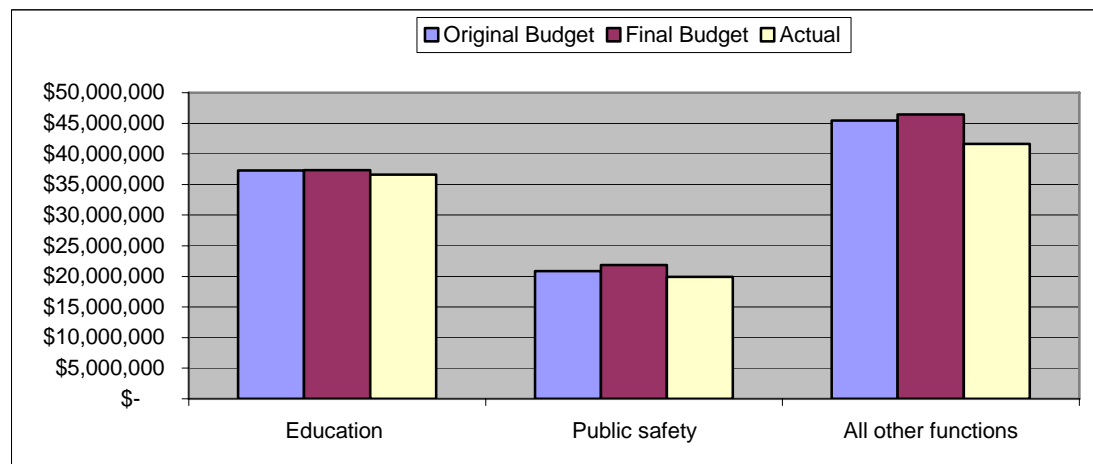
During the year, the Board of Supervisors approved various budget revisions. The following chart shows the original approved budget, the revised budget at the end of the fiscal year and the actual amounts for both revenues and expenditures in the general fund.

General Fund Revenue Comparison of Budget to Actual



Other local taxes showed growth resulting in an increase of \$1,793,229 or 8.3%. This was primarily from business license taxes and taxes on recordation and wills, driven by new business opening in the area and the boom in the housing market. Revenues from the federal and state governments had increases of \$355,445 (29.2%) and \$401,070 (10.4%), respectively. This resulted from public assistance funding received from FEMA for Hurricane Isabel reimbursement. Permits, and other licenses also increased by \$275,824 or 43.4% due to an increase in inspection fees from new construction and residential improvements.

General Fund Expenditures Comparison of Budget to Actual



As is reflected above, actual General Fund budgeted expenditures were 7.1% below the final budget.

Significant variances from the final budget for fiscal year 2005 include the following:

- General Government expenditures were below budget because of the timing of the purchase of the Help America Vote Act voting machines. The machines were purchased in September 2005.
- Public safety expenditures were significantly below budget due to actual jail per diem charges being lower than anticipated. In addition, turnover resulted in personnel savings.
- Finance and Planning expenditures were significantly below budget because several planned economic development incentives have not yet been awarded.

PROPRIETARY FUNDS

The County currently operates seven Enterprise Funds and one Internal Service Fund. The Enterprise Funds provide the means to account for the operations of the County-operated utilities, the two sanitary districts, the County solid waste disposal activity, and the revitalization of Yorktown. The Internal Service Fund is used to account for the operation of the centralized motor vehicle pool.

The Sewer Utility Fund collected \$6,365,257 through charges for services and is a self-supporting fund. The Yorktown Revitalization Fund has been established to account for the revenues and expenses of the Yorktown Waterfront and the fund currently holds the waterfront land. The Internal Service Fund collects its revenues through charges for services imposed on the various County Departments to which fleet vehicles are assigned. The fund's expenses relate directly to the maintenance and depreciation of the County's fleet of vehicles.

The Enterprise Funds in the aggregate had an increase in net assets during the fiscal period of \$4,985,868, and the Internal Service Fund reported an increase in net assets of \$478,289. The net assets for the Enterprise Funds and Internal Service Fund were \$87,101,339 and \$3,956,763, respectively, at the end of the fiscal year. Given the size and nature of the County's proprietary funds, these net assets are prudent and adequate.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal year 2005, the County's investment in capital assets for its governmental and business type activities amounts to \$161,542,029 (net of accumulated depreciation). This investment in capital assets includes land, construction in progress, land improvements, buildings and improvements, infrastructure, equipment, and vehicles. The County does not own its roads and they are therefore not included in the capital assets. In addition, the School Division owns all school buildings and the related debt is County debt. For this reason, the assets are reflected in the statement of net assets of the component unit School Division, while the related debt is reflected in the statement of net assets of the primary government.

Governmental Funds

Capital Assets, Net of Depreciation

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>FY2005</u>	<u>FY2004</u>	<u>FY2005</u>	<u>FY2004</u>	<u>FY2005</u>	<u>FY2004</u>
Land	\$ 9,080,717	\$ 8,600,680	\$ 3,749,600	\$ 3,970,814	\$ 12,830,317	\$ 12,571,494
Construction in progress	1,056,195	12,487,050	8,336,715	6,949,059	9,392,910	19,436,109
Land improvements	4,889,224	1,336,300	7,258	7,673	4,896,482	1,343,973
Buildings and improvements	31,833,887	21,241,455	6,493,186	5,962,486	38,327,073	27,203,941
Infrastructure	9,582,319	2,293,929	68,955,011	66,497,027	78,537,330	68,790,956
Equipment	11,480,137	2,468,897	403,330	480,567	11,883,467	2,949,464
Vehicles	5,247,799	4,999,507	426,651	398,956	5,674,450	5,398,463
Total	<u>\$ 73,170,278</u>	<u>\$ 53,427,818</u>	<u>\$ 88,371,751</u>	<u>\$ 84,266,582</u>	<u>\$ 161,542,029</u>	<u>\$ 137,694,400</u>

Capital Project Funds

The Capital Project Funds are used by the County to account for the financing sources used to acquire and construct major capital projects for the primary government. A major source of funding for the capital projects is transfers from the General Fund.

Yorktown Capital Improvements Fund

For fiscal year 2005, \$250,000 and \$2,225,000 was transferred to the Yorktown Capital Improvements Fund from the General Fund and County Capital Projects Fund, respectively. During the year, capital project expenditures of \$15,375,564 were primarily incurred for the Riverwalk Landing construction project.

County Capital Fund

For fiscal year 2005, \$3,221,919 and \$53,081 was transferred to the County Capital Fund from the General Fund and Public Facilities Debt Service Fund, respectively. During the year, capital project expenditures of \$6,784,930 included the following:

- Transportation improvements and VDOT projects
- Public safety equipment
- Communications system
- Park facility development

Additional information on the County's capital assets can be found in note 6 beginning on page F-15 of this report.

Long-Term Debt

At the end of the fiscal year, the County had total bonded debt and literary loans of \$71,191,722. Capital leases, claims payable, landfill closure costs, the School Division's note payable to the VRS, and compensated absences are not included in these figures.

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>FY2005</u>	<u>FY2004</u>	<u>FY2005</u>	<u>FY2004</u>	<u>FY2005</u>	<u>FY2004</u>
Bonds payable	\$ 60,435,000	\$ 64,580,000	\$ 9,886,722	\$ 9,310,721	\$ 70,321,722	\$ 73,890,721
Literary loans	870,000	1,030,000	-	-	870,000	1,030,000
Total	<u>\$ 61,305,000</u>	<u>\$ 65,610,000</u>	<u>\$ 9,886,722</u>	<u>\$ 9,310,721</u>	<u>\$ 71,191,722</u>	<u>\$ 74,920,721</u>

During fiscal year 2005, the County issued \$8,575,000 of sewer system revenue refunding bonds to advance refund \$7,815,000 of sewer revenue bonds. The refunding was undertaken to take advantage of lower interest rates to reduce future debt service payments by \$1,004,194. The reacquisition price exceeded the net carrying amount of the old debt by \$823,870. This amount is being netted against the new debt and amortized over the new debt's life, which is the same as the refunded debt. The transaction also resulted in an economic gain of \$639,060.

Under Virginia state law, school divisions do not have the authority to issue debt. Therefore, all school debt is issued by and is a liability of the County. In fiscal year 2005, the County paid debt service of \$3,328,986 and \$2,470,445 for education related principal and interest, respectively, through the County's Debt Service - Education Fund.

The County continues to maintain an excellent bond rating for local governmental jurisdictions of its type and size. The rating assigned by Standard & Poor's Corporation is AA and Moody's is Aa2 for debt backed by the full faith and credit of the County and AA- and Aa3, respectively for the lease revenue bonds issued in December 2003.

Additional information on the County's long-term debt can be found in note 8 beginning on page F-19 of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND TAX RATES

The County's staff and Board of Supervisors considered many factors when developing the fiscal year 2006 budget. Local revenue, which includes property tax, was expected to grow from fiscal year 2005 to fiscal year 2006 by 7.4%. Increased property values reflected in the reassessment, construction activity and increased revenues from business and commercial operations are the primary reasons for this growth. State and federal revenues to the General Fund, which comprise about 4.5% of the total, are currently expected to remain at approximately the same level as the current budget. However, the state is in a fiscal crisis, and there may be some reduction in state funding. Combined local, state and federal revenue is expected to rise 7.6%. These factors were considered in preparing the County's budget for fiscal year 2006.

The fiscal year 2006 approved budget for the General Fund is \$102,470,909, a 7.6% increase over the fiscal year 2005 budget. New budget initiatives are as follows: an increase of 7.5% in local funding for the School Operating Budget; the addition of 11 new full-time equivalent personnel in the General Fund; a compensation package based on the Human Resources Division's annual benchmarking study that maintains both the County's and the School Division's pay plans' competitive positions in the regional market by including an across-the-board market adjustment of 2.25%; a \$250,000 allocation for economic development to help attract new business and commerce to the County as well as to support existing businesses; funding to support the drainage improvements program approved by the Board of Supervisors during 2005; funding in the Enterprise Funds to continue significant water and sewer expansion projects in areas such as Marlbanks, Queens Lake and York Point (as the Board is aware, Utility Enterprise Funds have no effect on General Fund expenditures or the tax rate); a Capital Improvements Program which continues ongoing projects such as the replacement of equipment, funds maintenance and renovation projects of County facilities and park areas, continuous implementation of classroom technology and the Yorktown Revitalization projects funded through the portion of the transient occupancy tax which the General Assembly has designated for tourism and tourism related expenditures.

REQUESTS FOR INFORMATION

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the County's finances and to demonstrate the County's accountability for the money it receives. Questions concerning this report or requests for additional financial information should be directed to Marycarol C. White, CPA, Director of Financial and Management Services, P. O. Box 532, Yorktown, VA 23690, telephone (757) 890-3700.